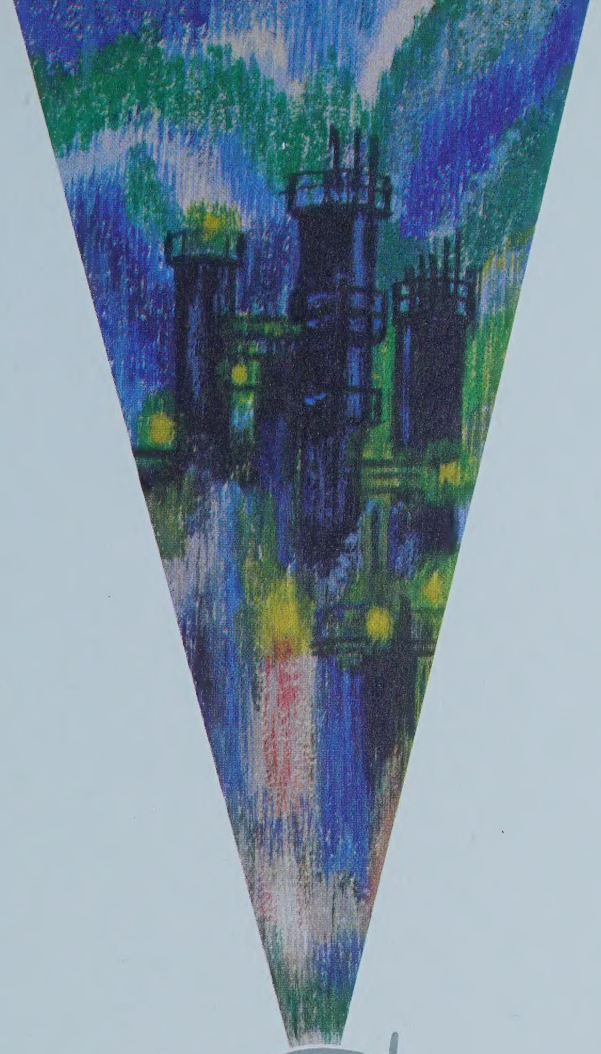
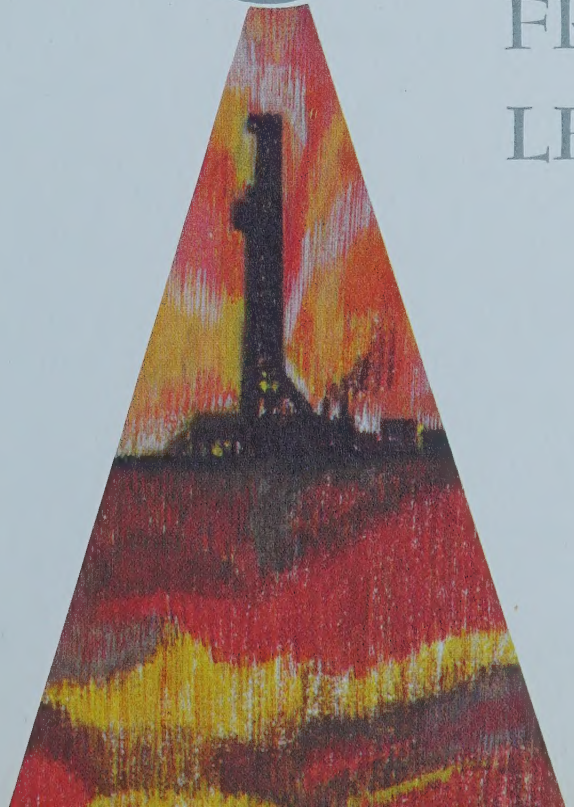
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1963 annual report

GRIDOIL FREEHOLD LEASES LTD.



GRIDOIL FREEHOLD LEASES LTD.

(Incorporated in the Province of Alberta, Canada)

HEAD OFFICE: 330 - 9th Avenue South West, Calgary, Alberta

1963

ANNUAL REPORT

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The Annual General Meeting of the Shareholders will be held at the Head Office of the Company, 330 - 9th Ave. S.W., Calgary, Alberta on May 27, 1964.

Report to the Shareholders

Growth

The first fiscal period of the Company (February 19 to December 31, 1963) was one of growth and progress in all operations. New revenue and production levels were reached and continued improvement for 1964 has already been assured by current results. We advised you in the Interim Report dated March 4th, 1964 of the proceedings taken to set aside the order approving the amalgamation agreement. The Appeal to the Supreme Court of Canada is proceeding.

Profit

The Company earned a net profit of $106,635 after all expenses. Revenue from crude oil and natural gas sales, royalty and other income amounted to $1,356,808. Cash flow from operations totalled $770,022.

Active Program

Capital expenditures for land acquisition, exploratory and development drilling amounted to $1,954,882. These expenditures were made to provide for future growth and the benefit will be reflected in increased revenue for 1964 and future years. Satisfactory banking arrangements have been made to maintain the working capital position and to continue an active exploration and development program.

New Directors

At the Annual General Meeting of Shareholders of the Company held on April 30, 1963, Mr. Arthur R. Morison, C.A., and Mr. William L. James, B.A., LL.B., associated with the Company since 1956, were elected Directors of the Company. Mr. Morison and Mr. James form welcome additions to the Board of Directors of Gridoil Freehold Leases Ltd.

Appreciation

The Directors appreciate the significant contribution to the progress of the Company due to the initiative and loyalty of its experienced personnel and for the continued support of the shareholders.

On behalf of the Board,

S. C. NICKLE,
President

April 20, 1964.

EXPLORATION & PRODUCTION

DRILLING

During 1963 the Company participated in the drilling of 34 exploratory and development wells in Alberta, Saskatchewan and the Arctic Islands resulting in the successful completion of 9.50 net oil wells, .25 net gas wells and 6 royalty interest wells.

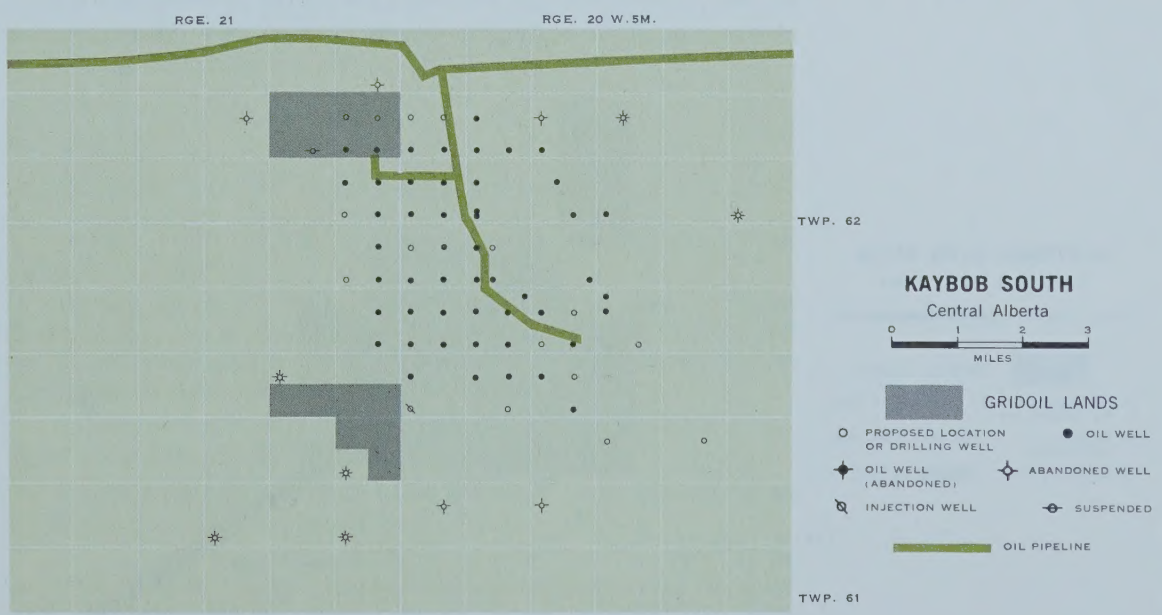
ARCTIC ISLANDS

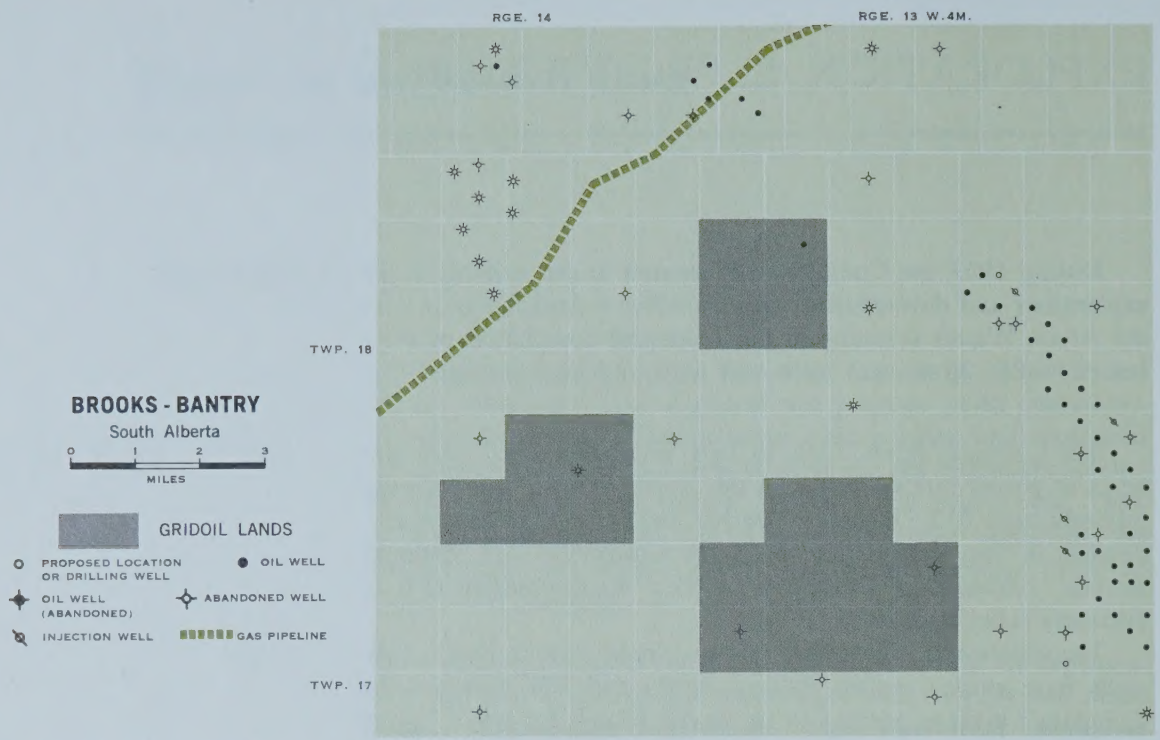
The Company holds 3.5% to 35% interest in over 7,000,000 acres of permit lands located on the Arctic Islands. Net acreage interests total 615,575 acres. During 1963, the Company participated in two exploratory wells on Cornwallis and Bathurst Islands. Information obtained from these non-productive tests is currently being evaluated.

Participation in the drilling of the Arctic Islands exploratory wells have earned double drilling credits and will maintain the Company's acreage position in the Arctic Islands for several years ahead. Discussions are being held with other responsible groups with substantial Arctic interests with a view to developing further exploration activities on the Islands.

ALBERTA

Alberta was an active exploration area in 1963. The Company participated in 15 tests totalling 8.425 net wells. Net wells successfully placed on production were 2.35 wells including .25 net gas wells. Production was obtained in the Kaybob South, Bantry and Sylvan Lake areas.

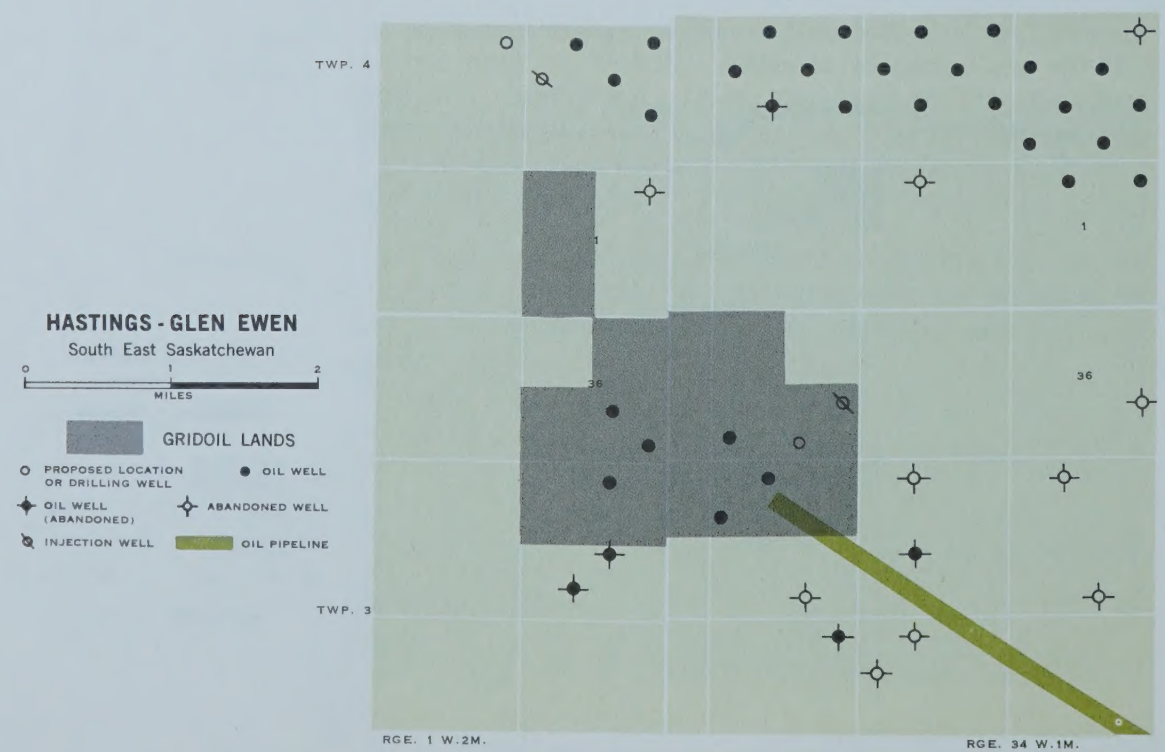




SASKATCHEWAN

The Company held a working interest in 10 wells drilled in Saskatchewan representing 8.40 net wells. Of these wells, 7.40 net wells, principally in the Hastings - Glen Ewen area, were placed on production.

Eight tests were drilled on Gridoil lands by other companies at no cost to Gridoil. Six wells were successfully completed and the Company retains a gross royalty ranging from 4.5% to 15% on all produced oil.



LAND HOLDINGS - December 31, 1963

	ACRES Gross	Net
Petroleum and Natural Gas Leases		
Alberta	78,157	37,290
Saskatchewan	180,250	177,112
Manitoba	4,786	4,786
	263,193	219,188
Petroleum and Natural Gas Reservations and Permits		
Alberta	249,920	55,279
Arctic Islands	7,017,242	615,575
	7,267,162	670,854
Total Acreage	7,530,352	890,042

Upon completion of certain exploratory operations, the Company is entitled to select P & N G Leases on approximately one-half of the Reservation and Permit lands.

ROYALTY ACREAGE

Alberta	10,880
Saskatchewan	52,944
	63,824

PRODUCTION

Production for the period February 19 to December 31, 1963 (316 days) amounted to 589,880 net barrels of oil after payment of royalties or an average rate of 1,867 net barrels per day, an increase of 26% over the average daily rate for 1962.

At December 31, 1963 the Company held varying interests in 1,825 gross oil wells equivalent to 67.59 net oil wells, an increase of 9.79 net oil wells since February 18, 1963.

CANADIAN WILLISTON MINERALS LTD.

Gridoil holds 63.4% of the outstanding share capital of Canadian Williston.

During 1963, 17 wells were drilled on Canadian Williston lands at no cost to the Company. Eleven wells were completed as oil producers and a gross royalty interest was retained by the Company in each case.

Canadian Williston's 1963 gross income increased to $222,591 from $150,089 in 1962.

Royalty income totalled $144,729 for 1963 compared to $105,363 for 1962, an increase of 37%.

Net income more than doubled to $125,816 for 1963 from $42,270 for 1962. 1963 Income includes non-recurring items of $60,707 from sale of mineral interests and royalties for prior years as compared to a similar item of $41,097 included in 1962.

GRIDOIL FREEH

Balance Sheet at

(with comparative figu

ASSETS

	December 31, 1963	February 18, 1963
CURRENT ASSETS		
Cash	$ 866,392	$ 253,210
Short-term investments, at cost	300,000	1,300,000
Accounts receivable	263,252	300,055
Due from Canadian Williston Minerals Ltd.	356,915	456,246
Due from parent, Scenic Oils Ltd.	44,986	9,985
Inventories —		
Crude oil, at market	10,856	7,139
Oil well materials, at cost	10,595	21,007
Prepaid expenses	41,673	18,088
	1,894,669	2,365,730
INVESTMENT IN SUBSIDIARIES		
Canadian Williston Minerals Ltd. (63.4% owned) — 2,514,893 shares, at cost	1,505,700	1,505,700
Shares of wholly-owned subsidiaries, at nominal value	20	20
	1,505,720	1,505,720
INVESTMENT IN SHARES OF PARENT COMPANY, at cost less cash dividends of $262,500		
Scenic Oils Ltd. — 150,000 shares	337,500	337,500
CAPITAL ASSETS, at cost		
Undeveloped oil and gas properties	522,102	427,752
Developed oil and gas properties	6,359,985	5,214,335
Production equipment	1,465,179	1,161,994
Other equipment	76,594	54,939
	8,423,860	6,859,020
Less — Accumulated depletion and depreciation	3,249,906	2,962,796
	5,173,954	3,896,224
OTHER ASSETS, at cost		
Mortgage receivable	675,000	675,000
Sundry shares and royalties	111,353	102,318
Refundable deposits	60,203	58,749
Unamortized note discount and issue expense	38,757	45,970
	885,313	882,037
	$9,797,156	$8,987,211

The Auditors' Report is at

LD LEASES LTD.

ecember 31, 1963

at February 18, 1963)

LIABILITIES

	December 31, 1963	February 18, 1963
CURRENT LIABILITIES		
Accounts payable	$ 394,501	$ 205,678
Accrued liabilities	71,678	176,019
Current portion of bank loan	212,500	204,000
	678,679	585,697
LONG-TERM DEBT		
5¾% Bank loan, secured by the assignment of specific producing properties, payable in equal monthly instalments of approximately $17,000, less current portion	1,381,500	771,172
5½% Convertible sinking fund redeemable notes, Series A, due July 1, 1976 (Note 2)	1,630,000	1,630,000
	3,011,500	2,401,172
SHAREHOLDERS' EQUITY		
Share capital —		
Authorized — 20,000,000 shares of a par value of nine cents each, of which 78,240 shares are reserved for conversion of notes		
Issued — 11,196,668 shares	1,007,700	1,007,700
Capital in excess of par value (Note 1)	4,992,642	7,025,268
Retained earnings (deficit) per accompanying statement	106,635	(2,032,626)
	6,106,977	6,000,342
COMMITMENTS (Note 4)		
	$9,797,156	$8,987,211

Signed on behalf of the Board,

S. C. NICKLE, SR., Director

SAM C. NICKLE, Director

ed to this Balance Sheet

GRIDOIL FREEHOLD LEASES LTD.

Statement of Profit and Loss

For the period from February 19, 1963
to December 31, 1963

REVENUE		
Sales of crude oil and natural gas		$ 1,212,866
Royalty income		34,907
Interest and other income		109,035
		1,356,808
EXPENSES		
Operating, administrative and general	$ 396,693	
Interest on long-term debt	122,476	
Rentals on undeveloped oil and gas properties	67,617	586,786
PROFIT before the undernoted charges		770,022
Provision for depletion	217,999	
Provision for depreciation	88,646	
Amortization of note discount and issue expense	7,213	
Unproductive well costs	349,529	663,387
NET PROFIT for the period		$ 106,635

Statement of Retained Earnings

For the period from February 19, 1963
to December 31, 1963

Deficit, February 18, 1963	$(2,032,626)
Less: Amount charged to capital in excess of par value (Note 1)	2,032,626
	–
Add: Net Profit for the period	106,635
Retained Earnings, December 31, 1963	$ 106,635

GRIDOIL FREEHOLD LEASES LTD.

Notes to Financial Statements

1. On April 30, 1963 the shareholders approved the elimination of the deficit as of February 18, 1963 by a charge to capital in excess of par value.

 The change in capital in excess of par value is summarized hereunder:

Balance, February 18, 1963	$7,025,268
Less — Amount charged in respect of elimination of deficit as referred to above	2,032,626
Balance, December 31, 1963	$4,992,642

2. The 5½% convertible notes are convertible until July 1, 1967 into capital stock of the Company on the basis of 48 shares per $1,000 of principal.

 The sinking fund requirements of the 5½% notes have been satisfied until 1968 in which year $57,500 will be due and $187,500 annually thereafter.

 The note discount and issue expense is being amortized by the straight-line method over the term of the notes.

3. Developed properties are being depleted on an over-all basis by the unit of production method based on estimated oil reserves. Depreciation of substantially all of the equipment is provided for by the straight-line method at a rate of 10% per annum. When capital assets are sold or otherwise disposed of in the ordinary course of business, the original cost and the related accumulated provisions are cleared from the accounts and the resulting profit or loss, after taking into account proceeds from sale or salvage value, is carried to profit and loss account.

 Maintenance and repair expenditures are charged to income as incurred. The costs of major renewals and betterments are capitalized. Drilling expenditures applicable to dry holes and exploration costs and lease rentals are charged to income as incurred, except when such expenditures are incurred in order to earn an interest in petroleum and natural gas rights in which case they are capitalized as part of the cost of the property. Costs of abandoned properties are written off at the time of surrender.

4. The Company has a lease on an office building which expires in 1973 (with an option to renew). Under the terms of the lease the Company is required to pay all operating expenses and an annual rental of $245,000. The major portion of the premises is currently subleased at annual rentals aggregating approximately $295,000.

Auditors' Report

To the Shareholders of
GRIDOIL FREEHOLD LEASES LTD.

We have examined the balance sheet of Gridoil Freehold Leases Ltd. as at December 31, 1963 and the statements of profit and loss and retained earnings for the period from February 19, 1963 to December 31, 1963 and have obtained all the information and explanations we have required. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the Company, the accompanying balance sheet and statements of profit and loss and retained earnings are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the Company as at December 31, 1963 and the results of its operations for the period from February 19, 1963 to December 31, 1963, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

MARCH 15, 1964

PRICE WATERHOUSE & CO.
Chartered Accountants

GRIDOIL FREEHOLD LEASES LTD.

Statement of Source and Application of Funds

For period February 19, 1963 to December 31, 1963

SOURCE OF FUNDS	
Net Profit for the period	$ 106,635
Add non-cash charges for depletion, depreciation, amortization and unproductive well costs	663,387
Cash generated from operations	$ 770,022
Net proceeds of long-term bank loans	800,000
Drilling deposits refunded and realization on other assets	10,489
	$1,580,511
APPLICATION OF FUNDS	
Expenditures for leases, well costs and equipment (net)	$1,954,882
Repayment of long-term bank loan	189,672
	$2,144,554
Decrease in Working Capital	$ 564,043

GRIDOIL FREEHOLD LEASES LTD.

330 Ninth Avenue S.W., Calgary, Canada

CAPITALIZATION

	Authorized	Outstanding
5½% Convertible Sinking Fund Notes, Series A, maturing July 1, 1976	$ 3,000,000	$ 1,630,000
Capital Stock, par value 9c per share	†20,000,000 shares	11,196,668 shares

† 78,240 shares have been set aside against conversion of the Series A Notes.

DIRECTORS

Eric Connelly	Calgary, Alberta
William L. James	Calgary, Alberta
Arthur R. Morison	Calgary, Alberta
Carl O. Nickle	Calgary, Alberta
S. C. Nickle, Sr.	Calgary, Alberta
Sam C. Nickle	Calgary, Alberta

OFFICERS

S. C. Nickle, Sr.	President
Sam C. Nickle	Vice-President
Arthur R. Morison	Treasurer
William L. James	Secretary

BANKERS

Bank of Montreal

TRANSFER AGENTS AND REGISTRARS

CANADA

Guaranty Trust Company of Canada

Toronto and Calgary

U.S.A.

Empire Trust Company

New York, N.Y.

AUDITORS

Price Waterhouse & Co.